

ACCOUNTING PROCEDURE

TOPIC: Section 8--Capital Assets 5.0	EFFECTIVE DATE: 2/28/89
TITLE: Disposition of State-Owned Assets	REVISION DATE: 9/24/04
AUTHORIZED BY: Cheryl Thompson, Financial Manager	PAGE 1 OF 6

POLICY

Department of Health and Family Services (DHFS) organizations need to be careful to comply with all Wisconsin and Federal laws when disposing of state-owned assets.

If an asset is purchased with federal funds, the safekeeping and disposal of the asset must be handled in accordance with federal requirements. The Procedures Section of this APP goes into more detail on the Federal requirements. If you have any questions, refer to the Division of Management and Technology-Bureau of Fiscal Services (DMT-BFS), Program and Federal Accounting Section.

The Department of Administration (DOA) Bureau of Procurement administers the surplus property program. DMT-Office of Purchasing serves as the Department's surplus property manager.

The following methods are acceptable methods of disposal:

1. Transfer or sale of property to another state agency.
2. Transfer or sale to a municipality as defined in s. 66.0301(1).
3. Sale to public by one of the following:
 - a) Competitive bid
 - b) Public auction (electronic or tangible event at a public location)
 - c) Open negotiated & documented sale
 - d) Offer to the public at a fixed sale price
4. Trade-in on replacement equipment
5. Donation to a *verified* nonprofit corporation (organization) - see additional notes #2
6. Sale for salvage value
7. Scrap for no or limited value
8. Destruction when security/confidentiality is required or when other methods of disposal might be hazardous to the public.

Additional notes on disposals are:

1. Donations of state property to private individuals, for-profit organizations or state employees are prohibited.

2. Donations to non-profit organizations are permitted however:
 - a) It must be done in a competitive manner
 - b) Can't pick one non-profit over another
 - c) Must be equal and fair
 - d) Must be minimal or no value
 - e) Examples of acceptable methods are advertising in newspaper for a first come-first serve basis, take bids/sale or a lottery method.
3. Sales to state employees are prohibited unless items are sold at announced public sales or auctions.
4. There are restrictions on the disposal of certain major appliances, including air conditioners, clothes washers and dryers, dishwashers, freezers, microwave ovens, ovens, refrigerators and stoves.
5. Proceeds from the disposal of state-owned property are handled differently depending on the classification of the disposal and the type of appropriation that was used to originally purchase the asset. The Procedures Section of this APP goes into more detail on accounting for proceeds.
6. For questions, contact the DOA State Surplus Property Program (SSPP) manager at (608) 266-1719.

PROCEDURES

According to the State Procurement Manual part PRO-F-3, the state surplus property disposal procedures are:

1. DHFS organizations have the authority to dispose of property with a current market value of \$5,000 or less and an original purchase price of less than \$25,000. No approval or reporting is necessary.
2. Assets with a current market value over \$5,000 and up to \$25,000 and an original purchase price of less than \$25,000 requires a summary report to be submitted to DOA/SSPP. This is no pre-sale approval required.
3. Assets with a current market value greater or equal to \$25,000 or have an original purchase price of \$25,000 or more, requires prior approval from DOA/SSPP with the Surplus Property Declaration/Authorization report (form DOA-3178) See reference section for directions to the DOA forms.

Microcomputer Redistribution

DHFS has a large investment in computer hardware that must be managed wisely. Refer to IT Hardware Redistribution Policy 1.3 that describes how DHFS will redistribute microcomputers to maximize the useful life of these assets.

Proceeds from the disposal of state-owned property

Accounting for proceeds from the disposal of state-owned property depends on the type of disposal it is and the appropriation used to purchase the asset.

1. State Surplus Property

Act 33 of the 2003-2005 Wisconsin State Budget requires that the net proceeds from the disposal of surplus property be deposited into the Budget Stabilization Fund (Fun 286) retroactive to September 1, 2003. DHFS has

setup Appropriation 963, account number 94400, project 000, RA 200, in Organization 8200 for depositing proceeds that need to be deposited into the Budget Stabilization Fund. Periodically, DOA will transfer the balance into the Budget Stabilization Fund.

Surplus property is defined as an asset that will not be replaced with a functionally similar asset within the standard replacement schedule and has one or more of the following characteristics:

- The asset is no longer functioning in whole or in part.
- The asset is technologically or mechanically obsolete.
- The asset is no longer in active use by the agency.
- The asset is in excess of agency needs in the foreseeable future.

If the asset was purchased with Federal dollars or from a sub-grant from the Federal Government then account for the proceeds in accordance with the requirements of the related federal program.

If the asset was purchased with GPR, non-Federal PR, or non-Federal SEG funds then the proceeds need to be transferred to the Budget Stabilization Fund. If the asset was purchased from a PR appropriation, but the funds are from a sub-grant from the Federal government then account for the proceeds similar to assets purchased with Federal dollars. Note: Northern Wisconsin Center has an exception - see Wisconsin Statutes 51.06(6).

Proceeds, even if they were deposited into the Budget Stabilization Fund, should be included in the calculation of the gain/loss on disposal of capital assets.

2. State replacement property

State replacement property is an asset that will be replaced with a functionally similar asset within the standard replacement schedule and has one or more of the following characteristics:

- The asset is due for replacement.
- The asset meets established Department replacement criteria.
- The asset is technologically or mechanically obsolete.
- The asset is no longer functioning in whole or in part.

If the asset was purchased with GPR funds and the proceeds were from the disposal of State Replacement Property then record the proceeds as General Purpose Revenues - Earned.

If the asset was purchased with non-Federal PR or non-Federal SEG and the proceeds are from the disposal of State Replacement Property then record the proceeds as revenue in the appropriation that originally purchased the property.

3. Gifted or Donated Property

If property that was gifted or donated was never put into programmatic use and is sold, then the proceeds should go to the recipient agency. The reason for this is that it is assumed that the donor's intent was meant for the benefit of the agency.

If the gifted or donated property is put into programmatic use and is later sold, then the proceeds should be handled similar to a non-federally funded state purchased asset.

4. Net Proceeds

Net proceeds are calculated by deducting the handling and selling costs from sales proceeds. The following are examples of allowable handling and selling costs:

- Staff time (including overtime)
- Storage expenses
- Sales commissions
- Transportation expenses
- Legal expenses
- Insurance expenses
- Preparation expenses
- Repayment of financial lease obligations

See DOA's State Accounting Manual, Section VI Revenue, Sub-Section 11-Surplus Property Proceeds for additional information on how to handle proceeds.

Assets Purchased with Federal Funds

An asset purchased with federal funds must follow Federal requirements regarding the safekeeping and disposal of the asset. The requirements that need to be followed are determined by the Federal grant/agency in which provided the funds to purchase the asset. Property standards used to be a part of the Office of Management and Budget (OMB)'s Common Rule. However, OMB has required larger federal agencies to codify the common rule. Requirements for DHHS grants can be found in 45 CFR 92.32 and USDA programs are found in 7 CFR 3016.32. In addition to the agency requirements, the individual grant may have it's own specific requirement as well.

The following are some excerpts from 45 CFR 92.32(d)(5)(similar language is found in 7 CFR 3016.32) related to equipment:

- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.
- (e) Disposition When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:
 - (1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency (federal).
 - (2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
 - (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.
- (f) Federal equipment In the event a grantee or subgrantee is provided federally-owned equipment:

- (1) Title will remain vested in the Federal Government.
 - (2) Grantees or subgrantees will manage the equipment in accordance with Federal agency rules and procedures, and submit an annual inventory listing.
 - (3) When the equipment is no longer needed, the grantee or subgrantee will request disposition instructions from the Federal agency.
- (g) Right to transfer title The Federal awarding agency may reserve the right to transfer title to the Federal Government or a third party named by the awarding agency when such a third party is otherwise eligible under existing statutes. Such transfers shall be subject to the following standards:
- (1) The property shall be identified in the grant or otherwise made known to the grantee in writing.
 - (2) The Federal awarding agency shall issue disposition instruction within 120 calendar days after the end of the Federal support of the project for which it was acquired. If the Federal awarding agency fails to issue disposition instructions within the 120 calendar-day period the grantee shall follow Sec. 92.32(e).
 - (3) When title to equipment is transferred, the grantee shall be paid an amount calculated by applying the percentage of participation in the purchase to the current fair market value of the property.

Unless the obsolete equipment is worth more than \$5,000, per OMB Circular A-110, subpart C.34(g), the proceeds do not need to go into a federal appropriation (unless specified in the grant award). Proceeds do need to be deposited into the Budget Stabilization Fund.

REFERENCES

Code of Federal Regulations 45 CFR 92.32 <http://www.hhs.gov/grantsnet/adminis/fedreg45.htm>

Code of Federal Regulations 7 CFR 3016.32

<http://www2.state.id.us/lands/bureau/community%20forestry/Community%20Forestry%20Grants/grants%202003/Code%20of%20Federal%20Regulations%207CFR%20Part%203016.pdf>

DOA's State Accounting Manual, Section VI Revenue, Sub-Section 11-Surplus Property Proceeds

http://www.doa.state.wi.us/pagesubtext_detail.asp?linksubcatid=458&linkcatid=140&linkid=1

IT Hardware Redistribution Policy 1.3 (Found on the Intranet at:

<http://dhfsweb/IT/Policies/Policies&Standards/ITPolicy.htm>

OMB Circular A-110, subpart C.34(g) <http://www.whitehouse.gov/omb/circulars/>

State Procurement Manual PRO-F-1 - Surplus Property Disposal - Vehicles and Related Equipment (See Below)

State Procurement Manual PRO-F-3 - Surplus Property Disposal - Non-vehicles (See Below)

Wisconsin Administration Code, Chapter Adm 11 (See Below)

Wisconsin Statutes 16.72(4)(b); 16.72(5)(a),(b),(c); 51.06(6); 66.0301(1);

77.54(7m) www.legis.state.wi.us/rsb/stats.html.

Directions to Procurement Manual

To view the policies and procedures for disposition of State-Owned Equipment go to <http://vendornet.state.wi.us/> to bring up the login screen. Then click on login, and enter **dhfs** as your ID and **view** as your password. This will get

you into the system. Scroll down to the State Procurement Manual. From there you can get to the PRO-F chapters on surplus property disposal.

Directions to WI Admin Code, Chapter Adm 11

To view the Wisconsin Administration Code go to <http://www.legis.state.wi.us/rsb/code/index.html>. Go to Composite Table of Contents. Then click on ADM. Then click on chapter 11.

Directions to DOA Forms

Go to <http://vendornet.state.wi.us/> to bring up the login screen. Then click on login, and enter **dhfs** as your ID and **view** as your password. This will get you into the system. Scroll down to Download DOA Purchasing Forms. Form-3178 will be found under Miscellaneous.

CONTACTS

State Surplus Property Program

Bert Buri
Department of Administration
State Surplus Property Program Manager
(608) 266-1719

Accounting Issues

Dave Corbett
Special Services & Financial Statements
(608) 267-3903

Federal Property Issues

Amy McDowell, Chief
Program and Federal Accounting Section
(608) 266-2708

Fleet Surplus Property

Joni Fletchall
Purchasing
(608) 266-1161

Microcomputer Distribution

Joseph Rueden, Chief
Technical Services Section
(608) 266-8567